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U.S. Arms Transfer Policy And The Third World: Future Prospects

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by

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ABSTRACT

TITLE: US Arms Transfer Policy and the Third World: Future Prospects

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PURPOSE: To review the US security assistance program, the arms production capabilities and import requirements of third world countries, and the resulting implications for US national security policy.

INTENDED READERSHIP: Students, faculty, and staff of the National Defense University, and involved elements of the US Government including: the Defense Security Assistance Agency, the Office of Politico Military Affairs, Department of State, the Arms Control and Disarmament Agency, and the Central Intelligence Agency.

BRIEF SUMMARY:

This paper reviews the increasing trend of third world countries to develop their own defense production capabilities, and to look within the third world to meet an increasing portion of their military equipment requirements. As a result, the major arms producing countries such as the US and USSR, while still the major exporters, are supplying a smaller percentage of total worldwide exports. This trend has implications for the US security assistance program, overall US foreign policy, and national security interests.

The paper summarizes the framework underwhich the US arms transfer program operates, and the importance of the program to the US. Also included in the summary is an assessment of third world country capabilities and goals. Finally, an assessment of the implications for US national security policy and some possible policy options are identified.

AUTHOR'S BIOGRAPHY

Mr. Wayne R. Laskofski has been a civilian employee of the Department of Defense since 1971. He is currently a Security Assistance Analyst in the Defense Security Assistance Agency(DSAA), Office of the Secretary Defense. He has served in a civilian position in the Operations Directorate of DSAA since 1981. In this position he has been involved in the development of security assistance policy on a wide variety of topics and has worked with a number of foreign countries on security assistance related issues. Most recently he handled much of the security assistance program with the Government of Australia. Prior to assuming his position in DSAA, he worked in various security assistance positions in the Department of the Army including positions in the Deputy Chief of Staff for Logistics and the Armament Command at Rock Island Illinois. He graduated Magna Cum Lauda from Wilkes College in 1971 and also has a Masters of Government Administration from the University of Pennsylvania. He graduated from the Industrial College of the Armed Forces in 1987.

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EXECUTIVE SUMMARY

INTRODUCTION

Since World War II the United States has assisted friendly countries in their national development by encouraging self-reliance and promoting self-sufficiency through the attainment of better self-defense capabilities. To advance these goals the US has long been a major supplier of defense equipment, technology, and related logistics support to many allied and friendly countries. One of the major trends in the arms trade since World War II is the gradual shift from near monopoly to increasing competition in supply. As a result, while the US is still a major supplier, its share of total worldwide arms exports has continued to drop since the 1960s. This trend has occurred at a time when there was a real growth in both military expenditures and arms exports by the developing countries of the third world.

This paper reviews the increasing trend of third world countries, i.e. other than NATO, Australia, Japan, and the WARSAW Pact, to develop their own defense production capabilities, and to look within the third world, to meet an increasing portion of their military equipment needs. Nevertheless, at times countries must look outside of the third world because of technology, financing, or other factors.

THE CURRENT US SECURITY ASSISTANCE PROGRAM

Security assistance is the term normally used to address the program for the export of military articles and services from US sources to friendly and allied countries. As a part of US foreign policy, the Secretary of State, with the guidance and direction of the President, has the primary responsibility for the program. The Secretary of Defense has a major role in program development and execution. The Congress plays a crucial oversight role providing a specific framework for the program in the Arms Export Control Act and related legislation. Within this framework the US has historically used security assistance as a cornerstone of its foreign policy.

A major aspect of the current US security assistance program is the provision of financial assistance to friendly and allied countries. IN 1985 the US provided $4.9 billion of foreign military sales credits and $805 million of military assistance program funds. Because of the Gramm, Rudman, Hollings legislation, the program could be significantly reduced which will have a detrimental effect on the US ability to achieve its worldwide objectives.

From a US Government policy point of view, the main benefits of the security assistance program are the foreign policy and national security benefits which accrue. These include regional

stability, reduced need for direct US military involvement, and more self-reliant friendly and allied countries. It is important to understand that there are real economic benefits which also accrue to the US as a result of the overall security assistance program.

THE SITUATION TODAY

Partially as a result of US efforts to build self-reliant friendly and allied countries around the world, some countries are now more independent in meeting their defense equipment needs, and thus less dependent on foreign countries as a source for at least low-medium technology equipment. There has been a downward trend in US sales levels primarily because of: (1) the worldwide recession and dropping oil prices, (2) countries already purchasing more equipment than they can absorb, (3) rising indigenous production capabilities, (4) increased inter-third world trade.

Over the last 25 years at least 30 third world countries have devoted resources to develop some type of indigenous production capability. These efforts have been driven by a desire to become independent of foreign suppliers, to lower production costs, and to save hard currency by reducing the need to import equipment. Nevertheless, this devlopment is expensive, and in many cases third world countries must still rely on the major suppliers for technology, know-how, components, and financial assistance.

The percentage of arms exports from third world countries is on the increase. This is important because it reflects two trends. First, many countries are producing an increasing amount of their own requirements, and thus, importing less. Second, is a trend toward increasing competition in the international marketplace.

What is the attraction of third world suppliers? In general, some third world produced equipment is found to be of high quality and easy to operate and maintain, competitively priced, and free of restrictive arms transfer requirements. These factors are causing some buyers to take a closer look at third world suppliers. Of course, there are also those purchasers to whom the major suppliers will not sell.

A major factor in the US security assistance relationship with the third world is the export capability of the countries of the third world. Increasingly, these countries are looking to increase their own export capabilities.

FUTURE PROSPECTS

A key issue for the future is how the increasing capabilities and competitiveness of worldwide arms producers will impact US national security interests. A related issue is

whether the US can continue to achieve its foreign policy objectives in an environment where the goal of many producers is to advance their own development and interests to achieve increased self-sufficiency. Some of the realities which must be faced include:

-It is inevitable that the demand for low-medium technology equipment from advanced countries will decrease.

-The demand for higher technology equipment will continue although there will be increasing competition between US and European sources.

-One of the biggest advantages the US has is the provision of financial assistance. It is important that the US maintain sufficient levels of assistance.

-An increasing number of countries will attempt to improve their production capabilities and increasingly seek technology transfer and offsets.

CONCLUSION

While the unrestrained sale of conventional weapons has never been a goal or intent of US policy, the selective use of arms transfers has been a very important tool in the advancement of US foreign policy objectives. During the past decade the international environment has changed from one of dependency to what I would call an increasing amount of competition and cooperation.

I would say that no major revamping of the US security assistance program is required. To maintain a viable program, and because of benefits to US foreign policy objectives and the US economy, sufficient levels of financial aid must be maintained.

Where the US would be willing to sell to a country the US must assure that the acquisition from US sources is competitive with foreign sources. This is especially true where the purchasing country is paying with its own cash resources. US legislation and policy should recognize the benefits to the US Government, US mobilization base, and US economy, especially in the area of recovery of administrative and indirect costs.

Finally, the Executive Branch Agencies and the Congress must recognize the increasing trend toward competition in the international environment. Accordingly, the availability of comparable systems, if any, from foreign sources should be one of the considerations when a foreign country requests the purchase of US equipment or related technology.

1. INTRODUCTION

Since World War II the United States has assisted friendly countries in their national development by encouraging self-reliance and promoting self-sufficiency through better self-defense capabilities. This goal has also been of major importance to the attainment of our global and regional strategic objectives. To advance these goals the United States has long been a major supplier of defense equipment, technology, and related logistics support to many allied and friendly countries. In the 1950s and 60s this situation was caused partly by necessity since, for all practical purposes, there were only two countries capable of producing and exporting large amounts of military equipment-the US and Soviet Union. Western oriented third world countries thus looked to the United States for their equipment needs. Gradually, US NATO allies, especially France, the United Kingdom, Italy, and West Germany also began to develop more sophisticated defense production capabilities. Some of these European countries, also developed a desire to actively participate in the export market in order to advance their own economic and political interests. Through 1970 most known arms exports worldwide originated in the US, NATO, Soviet Union, or WARSAW Pact countries.

One of the main trends in the arms trade since World War II is the gradual shift from near monopoly to increasing competition in arms supply.(1) As a result, as Figure 1 clearly portrays, the US share of total worldwide arms exports has continued to drop since the 1960s. Likewise, the Soviet Union's share of the total has also dropped. Nevertheless, as reflected in Figures 2 and 3, there has been a significant real growth in both military expenditures and arms exports by the developing countries of the third world. The US has aided some of this growth through the provision of financial aid. Even though some European countries such as France and the United Kingdom, have increased their share of the total market, not all of the increase in requirements has been met by exports from these countries.

This paper will review the increasing trend of third world countries to develop their own defense production capabilities and to look within the third world to meet an increasing portion of their military equipment requirements. The term third world as used in this paper refers to all countries except those countries in NATO, the WARSAW Pact, Australia, and Japan. In this context numerous countries with a wide range of military and industrial capabilities are included. Obviously, countries must still at times look outside of the third world because of technology, financing, or other requirements; therefore, it is also essential to assess the US Security Assistance Program in this review. It is important to understand the reasons for this diversification of sources of supply, and also, the implications for US national security objectives.

Within this paper I will summarize the framework and importance of the US arms transfer program and the US

relationship with the third world, the worldwide evolution in military production and export capabilities, and finally, provide an assessment of the implications for future US national security policy.

2. THE CURRENT US SECURITY ASSISTANCE PROGRAM

Security assistance is the term normally used to address the program for the export of military articles and services(to include technology) from US sources to friendly and allied countries. It includes sales either on a direct US contractor to foreign government basis or on a government-to-government basis under the Foreign Military Sales(FMS) Program. Unlike many other countries, US defense industries are for the most part sustained by US military requirements. More than 85 % of total production is for US military needs. Nevertheless, security assistance requirements are important as a supplement to this production and as a key instrument of US foreign policy. As a part of US foreign policy, and national security policy, security assistance is the responsibiity of the Executive Branch. The Secretary of State, under the guidance and direction of the President, has the primary responsibiity for the key decisions in the program. The Secretary of Defense has a major consultation role and also a major role in program development and execution. The Congress plays a crucial oversight role. A very specific framework for the security assistance program has been established in the Arms Export Control Act and related legislation. The legislation and implementing US Government regulations establish the conditions under which sales are to be made, discourage widespread arms sales, provide strict controls for the export of articles and services on the US Munitions List, limit the purposes for which US origin articles and services can be provided, require the recovery in most cases of all direct and indirect US Government costs, prohibit the retransfer of US origin articles without prior US Government approval, and establish levels of US Government financial assistance. In addition, the Congress has established numerous Executive Branch reporting requirements and has performed continual oversight of the program.

Within the legislative framework established by the Congress, the US has historically used security assistance as a cornerstone of its foreign policy. Accordingly, political factors such as regional balance of power, technology transfer, potential for unfavorable precedents, and related factors are prime considerations before a sale is approved. The economic benefits to the US economy, while a consideration, are generally not a prime factor in the final decision.

US Financial Assistance

A major aspect of US security assistance is the provision of financial assistance to friendly and allied countries. In 1985

the US provided $4.9 billion of foreign military sales credits and $805 million of military assistance program grant funds. The actual FY 1985 and proposed FY 86 and 87 programs are portrayed at Figures 4 and 5. Because of the Gramm, Rudman, Hollings legislation the actual FY 86 figures were less than those identified, and the actual FY 87 figures will probably also be significantly less. Since virtually 100 % of the FMS credit and grant funds are utilized by recipient countries these reductions will have a significant detrimental effect on the overall program, and on the US ability to achieve its worldwide objectives.

US policy and legislation limit the use of these funds outside the US. As a result, the provision of US financial assistance not only has greatly assisted friendly countries meet their defense needs, and thus US national security objectives,. but they have also provided an important impetus to US industry by providing a source of financing for US defense products.

The Evolution of US Security Assistance Policy

The US Security Assistance Program has evolved from a predominantly grant program in the 1960s to a predominantly sales program after 1970. In recent years, primarily because of the worldwide economic recession, there has been a slight resurgence in the grant program for those countries most important to US interests and in the worst economic condition, ie. those countries with the largest debt problems and those least able to generate the required hard currency for imports. The US also provides significant amounts of forgiven FMS credits to Israel and Egypt as a part of the Camp David Accords.

Additionally, since the late 1960s a number of other trends have affected US security assistance policy. First, and probably most important, has been the continuing and expanding involvement of the Congress. The Arms Export Control Act, enacted in 1976, expanded Congressional oversight, especially evidenced by the current requirement for prior notice of sales over $50 million or $14 million for major defense equipment. The Congress rarely debates weapons sales except in cases it considers controversial. The Executive Branch generally tries to minimize controversy by being careful and deliberate in its actions. However, there appears to be a tendency for increased Congressional desire to be involved in the process. This has resulted in a number of significant sales being either stopped or debated in-depth because of potential Congressional opposition. In 1985/86 this was the case with a proposed sale of F-15 aircraft to Saudi Arabia. Eventually, the Saudis decided to buy British aircraft. Estimates are that this sale may have lost the US economy as much as $20 billion over the next 20 years. In addition, such actions jeopardize US foreign policy interests by bringing into question the reliability of the US. In fact, there have even been proposals that all major sales to other than the closest US allies must be specifically approved by the

Congress. Such action, in my opinion, would be detrimental to US national security interests because of the publicity and potential for delay which could be involved in each sale. While considered by certain elements within the Congress, these provisions have not been enacted. (2)

A second trend which began to gain impetus within US industry in the mid-1980s is the tendency to encourage foreign countries to look increasingly at direct commercial channels in lieu of government-to-government channels for their defense purchases of US origin articles and services. This trend has gained impetus since 1981 when legislative dollar limitations on commercial sales were lifted thus facilitizing direct sales. With few exceptions, DOD policy normally allows foreign countries to decide which channels they will utilize in making their defense purchases. (3) However, while there are some programs where commercial channels may be beneficial, overall there are many benefits derived from the government-to-government program by the US Government, foreign purchasers, and US industry. Further, I believe that one of the reasons many countries prefer US equipment is because of the close working relationship which is developed between the purchasing country and the US Military Department.

These trends could have long run implications for the US Security Assistance Program and for overall US national security interests. It is still too early to speculate on the exact results.

Presidential Policies

Many of the current aspects of the Security Assistance Program have their origins with the policies of the Nixon Administration. Self-reliance was emphasized in the so-called "Nixon Doctrine," which stressed, "A self-reliant nation is one possessing a national will to depend as little as possible on external assistance in matters of national defense and internal security." (4) As a result, during the early 1970s US policy stressed the development of defense capabilities, including defense production capabilities, by certain US friends and allies in order to meet their defense needs. Security assistance was viewed as a means of improving worldwide military capabilities, while at the same time reducing the likelihood of direct US military involvement. In a number of countries the US actively encouraged the development of a defense industry through the provision of technical data and production assistance. The US also provided financial assistance to aid in these acquisitions.

In general, Jimmy Carter campaigned on a platform of reducing worldwide arms sales. As a result, restrictions including annual sales ceilings, were implemented to limit worldwide arms sales and yearly sales levels by the US. The Carter policy was implemented on May 19, 1977 and was intended to limit arms transfers on moral and strategic grounds. The policy also announced that the US would be moving

away from arms transfers as a foreign policy instrument. During the Carter Administration human rights also became a factor in the security assistance relationship with a number of countries, most importantly Brazil, and a number of other South and Central American countries. The most important point though is that during the Carter Administration other factors, such as human rights and arms reduction considerations, became key foreign policy considerations in the development of US security assistance policy within the Executive Branch. Another key point is that the significant desired reductions in program levels never materialized, primarily because of extensive exceptions to the policy; therefore, significant levels of arms transfers continued.

Under the Reagan Administration, while these principles are important goals, security assistance is approached on a case-by-case basis and viewed as a key instrument of foreign policy and a very important tool for advancing US interests worldwide. This is summarized in the 1987 Congressional Presentation for Security Assistance Programs, which outlines the Administration's six basic objectives for the security assistance program:

-Promote Middle East peace
-Enhance cooperative defense and security
-Deter and combat aggression
-Promote regional stability
-Promote key interests through FMS cash sales and commercial military exports
-Promote professional military relationships through grant training(5)

This brief summary of the Presidential policies should portray the differing emphasis in security assistance policy which has existed since the late 1960s. US friends and allies have been forced to adapt their own policies to this changing perspective within the US.

Security Assistance Benefits

From the US Government policy point of view the main benefit of the Security Assistance Program is the foreign policy benefits which accrue. In the 1980s these foreign policy benefits have included: influence, establishment of strong and self-reliant friends and allies, strategic access, access to scarce resources, and petrodollar recycling.(6) Overall, the close government-to-government and military-to-military relationships which develop, and the benefits to US security because of the reduced need for direct US military involvement, are also very important.

As the 1987 Congressional Presentation for Security Assistance indicates, it is important to understand that there are also real economic benefits that accrue to the US as a result of security assistance. From 265,000-371,000 man-years of jobs are sustained or created annually. There are

also foregone costs because of the ability of friendly and allied countries to support themselves, and thus, avoid the cost of introducing US forces. It is estimated that sales have a multiplier effect on the US economy of between 1.2 and 1.8 times the value of total sales. (7)

The US services also benefit from security assistance through economies of scale from increased production quantities, and the US Government benefits through the recoupment of certain sunk costs such as those incurred in research and development. Estimates are that from 1978-82, the US saved more than $3.0 billion through economies of scale and other costs absorbed by foreign governments. (8) Related benefits which will not be addressed in detail here but which are worth mentioning are the production lines which have been kept open because of security assistance requirements, and the resultant favorable benefits to the mobilization base. Overall, it is important to note that security assistance is important to the US both politically and economically.

3. THE SITUATION TODAY

As the previous discussion indicated, security assistance is important to the US for political, economic, and security reasons. It has been instrumental in advancing US interests worldwide. Yet, partially as a result of US efforts to build self-reliant friendly and allied countries around the world, many countries are now more independent in meeting their defense equipment needs, and thus less dependent on the US as a source of at least low-medium technology equipment. As the chart at Figure 6 demonstrates there has been a downward trend in US sales levels. Historically, sales under the FMS Program have accounted for about 85 % of US sales with direct commercial sales by US industry accounting for the remainder. The reduced levels of US sales are largely due to:

(1). The worldwide recession and dropping oil prices which has placed budgetary pressure on numerous third world countries.
(2). Many third world countries have already acquired more equipment than they can readily absorb.
(3). Rising indigenous production of military equipment
(4). Increased inter-third world trade. (9)

It is difficult to assess exactly how much of the drop is attributed to each of these factors; however, the data is clear that worldwide military production capabilities are increasing. Andrew Ross points out that the success of third world producers in the international marketplace has significantly altered the structure of the market. The simple two-tiered system, wherein the advanced countries produced equipment, traded among themselves, and sold to developing countries has been replaced by a three tiered system. Third world countries now produce and sell to other third world countries and even to some non-third

world countries.(10)

Reasons For Third World Production

Over the last 25 years at least 30 third world countries have made the decision to devote some portion of their scarce resources to the development of some type of indigenous defense equipment production capability.(11) The most prominent reason for the decision was the desire to be increasingly independent of foreign suppliers and the pressures they can exert over a nation's security interests.(12) The threat of embargoes, the cut-off of logistical support, or other actions were important in these decisions. The independence factor, while important to all countries because of sovereignty and national prestige, was especially important for countries such as Israel, Taiwan, and South Africa which faced the potential for some type of political isolation.(13) Their intent has been and continues to be to build a self-sustaining military production capability.

Also important to a number of countries has been the development of their industrial base. They have decided to pursue this goal by devoting resources to the development of their defense industry. Those who support such efforts, "...assert that its capital and technological spin-off effects through heavy capital investment in modern industrial sectors and through the acquisition and dissemination of advanced technology serve as engines of growth for the entire national economy."(14) These factors were especially important in the defense industrial decisions made in South Korea and Brazil.

Other factors which have also influenced the decision to develop defense industries included the possibility of lower production costs and the savings of hard currency by avoiding the need to import such equipment. Also considered was the possibility of developing and producing items adapted to local country needs. Finally, the profit motive through the foreign exchange earned through the export of defense items has also been important to some countries.

Third World Capabilities

Arms producing countries worldwide fall within the spectrum of capabilities outlined below:

(1). Maintenance and overhaul facilities for imported weapons,
(2). License for domestic assembly with imported kits,
(3). Simple fabrication of components under license, with engine and more complex components imported,
(4). More sophisticated components or even relatively complete weapons manufactured under license,
(5). Add-ons indigenously designed and produced,
(6). Production of domestically designed weapons with some

components, such as engines, imported,
(7). Total indigenous design and production.
(8). Export of indigenous designed and produced equipment and provision of follow-on support. (15)

While the US and most NATO countries are at the highest stages, many third world countries have progressed only to the middle stages. Accordingly, they still must rely on the more advanced countries in order to continue their defense production development. Otherwise, their level of development will stagnate or they will be required to devote large amounts of their resources to research and development. This assessment is important because many of the third world countries are still utilizing technology and/or components received from the US or other countries. With the US origin technology and components the countries must comply with US third country transfer limitations, which restrict the retransfer of US origin equipment, technology, or production derived from US technology without US Government approval. Thus, their third-country sales activities are limited.

Third World Producers

As the chart at Figure 7 indicates, the percentage of third world country arms exports has increased significantly through 1983. From 1979-83 approximately 3.7 % of all exports were from the third world. Indications are that this number was even higher since 1983, however, firm data is not yet available. This data is significant because just a few years earlier third country sales were neglible. The data is important for two reasons: first, the exporting countries are undoubtedly producing to meet at least a portion of their own requirements. Thus, they have reduced their own imports of many types of defense items. This is especially true of small arms and ammunition which are in production in many third world countries. Secondly, they are increasingly meeting the defense equipment requirements of other third world countries. In either case they are reducing the demand for at least low-medium technology items from the US and other NATO countries

Since there is relatively little unclassified data available on defense production for indigenous requirements, a good indication of production capabilities is gained from reviewing the exports of the largest third world sellers from 1973-83. This data is summarized at Figure 8.

Of the countries listed on Figure 8, indications are that Brazil, Israel, India, and South Africa have the most diversified and advanced defense industries. An emerging group of countries includes: Egypt, Indonesia, North Korea, South Korea, Taiwan, and Yugoslavia. (16) In addition, there are a number of other third world countries with varying degrees of production capabilities such as Argentina, Philippines, Pakistan, and Singapore. A key point with regard to all of these countries is that their indigenous peacetime requirements are insufficient to sustain economic production

runs. In fact, countries like Brazil and Israel, which suffer from high production costs and low domestic peacetime requirements must export to maintain the economic viability of their defense industries.(17) In Brazil esimates are that 90 % of the arms manufactured are exported.(18) This has placed Brazil as the 5th largest arms exporter in the world, and has assisted Brazil's efforts to gain a trade surplus.

The Attraction of Third World Suppliers

Exactly why do foreign countries look to third world suppliers for their defense equipment needs? There are really two different aspects of this answer. First, there are some countries that the major powers will not routinely sell to or for which sales would generate unnecessary publicity. For example, the chart at Figure 9, which summarizes the suppliers of equipment to Iran and Iraq, demonstrates the extent to which this can occur. It is apparent that there are diverse sources supplying equipment in this conflict. The second point relates to countries that would be potentially eligible to purchase from a major producer, such as the US, yet consciously decide to purchase from a third world producer. For example, the reasons some purchasers prefer some Brazilian items are: (1) they are of high quality, perform well, and are easy to operate and maintain, (2) they are competitively priced, (3) Brazil has a liberal arms export policy.(19) This can be more easily understood when these factors are related to US equipment and requirements. First of all, while US items are state-of-the-art and of high quality, they are also at times relatively more expensive to acquire, maintain, and operate. This is because they have been designed for US needs and not necessarily for the needs of less developed countries and because US legislation requires the recovery of most direct and indirect costs for each sale under the Foreign Military Sales Program. Many Brazilian items on the other hand are designed for the third world market and are noted for their simplicity, flexibility, reliability, and low cost.(20) Also, US arms transfer limitations required by Congress in security assistance legislation, and the prospects of close Congressional scrutiny, can completely politicize the arms transfer process. US sales are strongly driven by US efforts to assist its friends and allies, and thus, by foreign policy and political considerations. As stated in its 1986 Defence Equipment Catalogue, "Brazil abides by the principle that the sale of defense materiel is not a part or an instrument of Brazilian foreign policy. No restrictions regarding the reexport of military equipment are imposed by Brazil, because it believes that any possible decisions in this area pertain to the sovereignty of the purchasing country."(21) This same philosphy, which is one of the main differences between US and Brazilian arms transfer policy, is similar to that of most other third world suppliers. Many arms transfers in the third world, especially those funded by the purchasing country's own cash resources, are driven by economic rather than political

considerations.

US policies have proven to be a major point of contention between other countries and the US. This is especially true of the US relationship with South Korea with regard to third country transfer actions. (22) In general, taking the politics out of arms transfers appears to have been very appealing to many countries in the third world.

European Producers

No discussion of the US Security Assistance Program with the third world, and the prospects for the future, would be complete without addressing the production capabilities of the advanced countries of Western Europe. France, the United Kingdom, Italy, and West Germany have long been major producers and exporters of military equipment. These countries have progressed a long way on the spectrum of production capabilities, and are now able to design and produce virtually all of the equipment needed for their own requirements. Of course, this may not always be possible for economic considerations; therefore, they still at times consider importing equipment manufactured by other countries. Numerous other European countries such as Switzerland, Greece, Spain, Norway, and the Netherlands are also increasingly expanding their defense industries.

There has been a great deal of cooperation between the US and the more advanced countries of NATO in the area of codevelopment and cooperation in the design, development and production of weapon systems for future requirements, in order to advance NATO rationalization, standardization, and interoperability. Overall, the relationship between the US and NATO countries of Western Europe is aimed at pursuing the common objectives of the NATO Alliance and of attaining mutually beneficial cooperation in meeting defense equipment requirements. Unlike the buyer-seller relationship with the majority of the third world, the US relationship with its NATO allies has become more oriented toward cooperative endeavors.

Many European arms producers must export to survive and some European companies export as much as 70 % of their total production. (23) Also, in recent years, mostly because of economic pressures on their economies, a number of countries, especially France and the United Kingdom, have increased their governments' emphasis on arms sales. In fact, they have even actively encouraged and assisted their companies in their international endeavors. For example, French sales more than doubled to over $6.5 billion in 1985. (24) As Eberhard Schulbert points out, the French have become increasingly dependent on exports in order to build and maintain the greatest possible range of domestically produced equipment. As a result, economic considerations have become increasingly important in the French program. (25)

Available information also indicates that European countries are more apt to provide technology and license production

authority in order to make a major sale. This is especially true of West Germany where the export of production facilities and licenses were industry's reaction to avoid restrictive government policies.(26) This point is highlighted in the chart at Figure 10. The implications of this proliferation of production know-how and authority are obvious, since the technology transfer and foreign policy considerations are in many cases different between the US and other Western European countries. All countries do not have the strict end-use and retransfer limitations that are imposed by the US.

From this discussion it should be apparent that European producers and their export policies are important in the consideration of the US security assistance program. Europeans possess a significant production capability, and also, a desire to expand their involvement in the export market. It appears that in many areas they provide a very real alternative to US equipment.

Offsets

A growing tendency in defense equipment transactions is the desire of purchasers to seek offset commitments from the suppliers in conjunction with their major purchases. "Offsets include a range of industrial and commercial compensation practices required as a condition of purchase of military related exports."(27) Offsets can include coproduction, barter, countertrade, and compensatory trade agreements-agreements that incorporate some method of reducing the amount of foreign exchange needed to buy a military item, or some means of creating revenue to help pay for it.(28) Offsets have become prevalent primarily because of disturbance in the international economy since 1973-rising oil prices, high inflation, slow economic growth and trade. Whether or not some of the recent changes in the world economic situation will reverse this trend is yet to be seen.

Many of those countries still importing defense equipment from the advanced countries are seeking to utilize those purchases for their maximum advantage. The countries see offsets as a way to: build an industrial infrastructure and acquire advanced technology, maintain and expand employment, acquire new technical skills, and to enhance commercial competitiveness.(29) In order to advance these objectives, a growing number of countries have mandatory offset policies. These countries include Australia, Greece, Spain, Turkey, Norway, South Korea, Israel, Malaysia, Indonesia, Egypt, and Saudi Arabia.

Since 1978 US Department of Defense policy has been that offsets are a matter for negotiation between US industry and the prospective purchaser. The US Government has consistently refused to make commitments relating to foreign requirements for offsets. While complete data on worldwide offset commitments is not available, it is apparent that offsets have become increasingly important in defense equipment sales negotiations and have been of growing importance in worldwide defense trade.

4. FUTURE PROSPECTS

In the preceding sections the discussion concentrated on worldwide arms transfers, the US security assistance program, and the major issues affecting the international environment. A key issue for the future is how the increasing capabilities and competitiveness of worldwide arms producers will impact US national security interests. A related issue is whether the US can continue to achieve its foreign policy objectives in an environment where the goal of many producers is to advance their own development and economic interests to achieve increased self-sufficiency.

Security assistance has been important to the advancement of US foreign policy and national security interests since World War II. There is no reason to believe that its role or importance will change, although as with any program, there may be some changes in its operations and substance. As stated in the Secretary of Defense's FY 1987 Annual Report to the Congress: "Security assistance strengthens formal alliances and contributes to stability in regions where formal alliances are not possible. US security assistance programs in concert with other foreign policy tools have achieved some remarkable results,..."(30) In fact, the current worldwide situation is in some cases a reflection of the success of US security assistance efforts. Those efforts assisted countries such as South Korea, Israel, and Taiwan to develop significant internal capabilities. The difficulties may arise not in production for internal requirements, but when those countries seek to export their production, especially if the exports involve US origin components or production technology. Nevertheless, US policy must face the fact that the world is changing in this area. The ability to produce military equipment no longer lies only with the more advanced countries. Numerous third world countries have developed and are developing increasingly sophisticated production capabilties. Some of these capabilities have been with little or no US involvement; therefore, the US may have little or no say in the sale or use of the equipment. I do not mean to imply that this trend is necessarily bad, but it will change the international environment, and raise a number of issues which must be considered.

Some of the current US policies and legislation and even some of the debates seem to be predicated on the fact that third world countries must rely on the US, the Soviet Union or one of their close NATO or WARSAW Pact allies for their defense equipment needs. As should be apparent from the previous data, a growing export capability outside of these countries is developing.

The US ability to use security assistance as a foreign policy tool has also been advanced by the levels of financial aid which the US has provided to assist friendly countries counteract regional threats and develop their self-defense capabilities. The reductions in the aid program which already have occurred, and potential reductions by the Congress, could perhaps be the biggest obstacle to the achievment of US objectives in the near term.

It is apparent that the US must be prepared to face an increasingly different international environment. The causes of these changes are complex and not limited to a simple explanation. For the most part the changes have been the result of successful internal development efforts of some third world countries, economic difficulties faced by some countries in recent years, and the growing need of some third world countries to exercise an increasing degree of self-sufficiency. Some of the realities which must be faced and some of the future prospects are outlined below.

Low-Medium Versus Higher Technology Equipment

It is a reality of the current world situation that many countries have the capability to produce various types of low-medium technology equipment, especially small arms and ammunition. It is inevitable that the demand for such items from sources in advanced countries will decrease. In addition, some third world countries will also produce some larger types of equipment such as vehicles, howitzers, and tanks which will also reduce the demand for such items from the more advanced countries. For the US this will have an impact on those production lines which currently depend on foreign requirements. Thus, reduced sales levels of these items will have both economic and mobilization base impacts within the US.

Even though the demand for lower technology equipment from the US may decrease, the demand for higher technology equipment will continue. Those third world countries with the financial resources to pay will look to the US for many advanced systems. The US will still be faced with releasability and technology transfer considerations, as well as regional balance of power and precedent considerations. Even the advanced technology will face some challenges because of growing competition in this area from European sources. A word of caution though, because of the difference in technology, a review of worldwide sales levels must go beyond just dollar value. Obviously, because of the level of technology of some US sales, individual transactions have sometimes been valued in the billions of dollars. A few major sales can result in a high total sales amount in a given year even though the value for more traditional items may have actually decreased. Much of the data on US sales in the early 1980s failed to recognize that much of the increase reflected in a few years in the early 1980s was at least partially attributable to a few major system sales of aircraft.

Financial

The availability of financial resources is key to the current worldwide situation. Many countries do not have sufficient foreign exchange to continue to buy and support the highest

technology equipment. Likewise, some countries are already having difficulties absorbing the higher technology equipment that they previously purchased. Their priorities are to increase their own capabilities and to look for the best values in the international marketplace. In some cases less sophisticated equipment designed by third world producers for third world markets is proving to be the choice of some purchasers.

One of the biggest advantages that the US has in advancing its interests has been the provision of US financial assistance to many third world countries. The assistance has been very important to the advancement of US interests and, thus, the development of defense capabilities in many third world countries. Yet, as was previously detailed the amount of US aid may very well decrease. Dr. Michael Ryan summarizes some of the potential problems:

> The results of these cuts will unfold over the next year, but we may anticipate complications in renegotiating base rights access agreements. It would be irresponsible to predict instability in any particular area, but we could indeed witness increases in conflict between states and in externally supported insurgencies. We must at least worry that many countries, judging that the United States is in actual retreat from its worldwide role, will decide that defense cooperation with the United States would be unreliable and counterproductive.(31)

It is apparent that these proposed cuts could have profound effects on the future of the US security assistance program. However, it is still too early to speculate with any precision the exact results which may occur.

Technology Transfer

The US must also face the fact that a growing number of countries are trying to increase their own indigenous production capabilities, and thus, will continue to seek US assistance and technology. Purchasers will also increasingly seek offsets in conjunction with their defense purchases. While US policy limits these areas in programs totally or partially financed with US Government funds, no such specific limitations exist, except for releasability or technology transfer limitations, for those programs financed by a purchasing country's own cash resources. The US must also face the fact that some European countries are willing to provide technology or licensed production authority in order to make a major sale. This will increasingly become a factor in many future negotiations. Except for those sales financed by the US, those with the least developed countries, or those initiated because of some international crisis, some type industrial or technology compensation will undoubtedly be sought

by the purchasing country.

Other Implications

Some of the major implications for the US are summarized above. In addition, the implications outlined below are also significant.

-There will be a continuing trend toward decentralization in the international arms production environment.(32) Some third world countries such as Brazil, Israel, South Africa, and Taiwan already have a significant capability. These countries will continue their production efforts and seek additional export business. In addition, numerous other third world countries will strive to develop their own capabilities.

-Third world arms sales are growing at a faster rate than those of developed countries. There is every indication that this trend will continue.(33) Many countries will continue to seek to modernize their military and to increase their self-sufficiency. For political and economic reasons countries will increasingly look at third world sources to meet their defense needs. However, because of technology, financing, or other factors they will look at times to the major countries such as the US.

-One of the most significant changes has been the decline of the market dominance of the traditional suppliers and the emergence of a second class of suppliers. The importance of the third world suppliers was first demonstrated in the war between Iran and Iraq. Future third world conflicts will undoubtedly be similarly impacted since the influence of any single country will be reduced.(34)

-There will be a deemphasis by more countries in the acquisition of high-technology hardware. This is partly caused by the lack of cash to purchase and support more advanced models. As a result, we will probably see: (1) fewer multi-billion dollar arms transactions, (2) increased sales of less-sophisticated more combat proven hardware, (3) a market shift from a few suppliers to numerous third world and non-third world suppliers. If this does occur US sales levels will be impacted and, as a result, US efforts to standardize equipment with friendly countries and to achieve an increasing degree of military-to-military cooperation will be minimized.

-We can also anticipate increasing dissatisfaction with many of the restrictive provisions of US legislation and policy in the arms transfer area. Initiatives by some third world countries for the US to liberalize its restrictions and to assist in their development can be anticipated. In this regard a good example is a summary by Janne Nolan relative to South Korean iniatives with the US:

(1) Liberalize US export restrictions on defense products utilizing US components or technology. Primarily, this has to do with efforts to ease US third country transfer restrictions which limit the transfer to third countries, without US Government approval, of US origin equipment or foreign equipment

produced with US origin components or technology. South Korea relies to a large degree on US origin equipment; therefore, these restrictions limit Korea's ability to export to other countries. Because of the potential impact on US production sources and the potential precedent for other foreign producers the current system of case-by-case consideration will undoubtedly continue.

(2) Use Korean sources for the overhaul and maintenance of US equipment in Asia. To the extent that Korean sources are competitive with other available sources this will probably occur to some degree. This could also have favorable mobilization base benefits for the US because it could open new sources for use in a contingency.

(3) Purchase Korean products to augment the US mobilization base. This could be very difficult to achieve on any significant basis because of the need to compete most procurements with US sources and other qualified foreign sources. However, the US must assure that the mobilzation base for similar items in the US is not impacted. To the extent that this could be achieved with minimal impact on the US mobilization base and US sources this would be beneficial.

(4) Encourage US contractors to enter into coproduction arrangements with Korean industry. This, in my opinion, is probably the most viable option. I envision that the consideration of coproduction projects will probably significantly increase in the future.

(5) Purchase Korean produced ammunition for the reserve stockpile in Korea. The US mobilization base for conventional ammunition is already working at minimal levels. For items still in production in the US this would probably be difficult to achieve. However, for certain items where US production is completed or US production quantities are sufficient this should be considered. (36)

-For some items, especially conventional ammunition, there will increasingly be a buyers market because of the worldwide glut of suppliers. To the extent that the production is based on US origin technology or components US approval for retransfer will be required. The US will probably see an increasing number of requests in this area. In many cases, because of lower labor costs, it should be expected that third world prices will be less than those from US sources. (37)

-The increasing self-reliance of some third world countries in the defense production area will reduce US influence over those countries and how their equipment is utilized. This is primarily because more countries will be producing a larger amount of the equipment required for both their operational and support requirements. In an increasing number of cases the US will have little, if any, direct say in the use of the equipment. For example, when a country purchases US equipment there are certain provisions that it must agree to relative to the uses of the equipment. The main US leverage in such cases will be in terms of limits on future purchases. (38)

-The development of a defense industry will improve the diplomatic maneuverability of some third world countries, to

include: (1) the possession of the capability to engineer and produce systems will improve the likelihood of being able to purchase similar items, (2) in some cases there will be a possibility that countries can acquire and assemble items bit-by-bit, (3) weapons manufactured domestically by a third world country could increase the nuisance value of the state that possesses them. Primarily many third world countries have increased the number of options open to them. There will be more situations where they will have more than one alternative to meet a military need. This could include going to alternative sources or actually initiating production within their own country. (39)

-Many third world countries will continue to rely on the US, but in some areas not as much. The capability of these countries to unilaterally influence international conflicts will increase because of the potential of exports by third world countries. Obviously, in the high technology area there will still be a great deal of reliance. There will also be a great deal of reliance by those countries receiving large amounts of US financial aid. However, as the number and capability of third world producers increases the overall reliance on any one source such as the US will naturally decrease. Of course, those countries already possessing US systems will still be forced to rely on the US for spare parts and logistics support.

-The prospects of international peace may actually increase in some areas because in some regions there may be less internal disparity between countries. In general, in some regions we will probably see more balance between the countries in the region. The need for direct involvement by the major powers could be reduced. However, should a conflict start there could also be less capability by a major power to quickly stop the conflict. (40)

-At least for the near-term there will still be some need for a degree of interaction between the US and the major third world producers. This is primarily because they will still be required to rely on the US for advanced technology and some major components. There is little chance that countries of the third world will have the resources to initiate significant levels of research and development. We will undoubtedly see more efforts as countries increase their capabilities toward cooperation with the US in coproduction projects for high technology equipment. (41)

-Some countries will be faced with a dilemma in their own policies. Once they get to a certain level, they will either have to increase their own research and development efforts, associate with a major supplier, or stagnate. While they may continue their efforts in the low-medium technology area, there will probably be consideration of higher technology projects between US firms and the more advanced third world countries. In order to continue their development they will probably give up some of their self-reliance to gain the benefits from cooperation. This is primarily because any such agreement must comply with US third country transfer provisions and other limitations. Such arrangements will also prove to be beneficial to the US because

the US will be able to continue its cooperation with the country involved and also, because of the economic benefits gained from a cooperative program when the alternative was no program at all. (42)

-Overall, because of the efforts of third world producers and some European producers, there will continue to be growing emphasis on the economic side and less emphasis on the politics of arms transfers. In some cases, a denial of a sale by the US will not have as great an influence as in the past, primarily because of the alternate sources which will be able and willing to meet the requirement. This factor must become a part of the decisionmaking process in the US. In many, but not all, cases items very similar to US items will be availble from foreign sources.

-In some conflicts, the ability of one major country to stop a conflict will be diminished because of the diverse potential sources for resupply. This was seen in the conflict between Iran and Iraq. (43)

-Secure and self-reliant developing countries may very well be more resistant to Soviet ventures and pressures than countries whose security is tied to one major power. While the countries may be less willing to be committed to the US, they will undoubtedly also be less willing to have a direct relationship with the Soviet Union. (44)

-Overall, the long range projection is that worldwide conventional arms control will be more difficult to attain.

5. CONCLUSION

While the unrestrained sale of conventional weapons has never been a goal or intent of US policy, the selective use of arms transfers has been a very important tool in the advancement of US foreign policy objectives. Concurrently, the program has also been very beneficial to friendly countries worldwide, since it assisted in the development of their indigenous defense capabilities, and assisted them in attaining an increasing amount of self-sufficiency. In addition, the close military-to-military relationship which has evolved because of these programs has been beneficial to both the US and the recipient foreign country.

During the past decade, the international environment has changed. An increasing number of countries have endeavored to improve their industrial capabilities. As a component of these efforts some countries have developed or are developing arms production capabilities. This is especially true for equipment in the low-medium technology range. A growing number of countries can not only produce equipment for their own requirements, but also are attempting to compete in the international marketplace. Today we have a situation where the dependency of the past is increasingly being replaced by what I would call competition and cooperation.

Competition comes into play, especially in the low to medium technology range, with regard to ammunition, small arms,

and less sophisticated type equipment. The export capabilities of third world countries are increasing. At times the US has some control over the export because in some cases US technology or components are utilized in the production. However, some countries are becoming conscious of this limitation in their equipment and technology acquisition decisions. US sources are thus finding themselves under increasing competition from foreign producers and sometimes at a disadvantage in the competition.

We are also seeing an increasing amount of cooperation with third world countries in the production area. Developed and third world countries are looking for some type of industrial compensation in the form of technology transfer or offsets before they will buy a foreign produced piece of equipment. This reflects the growing desire on the part of many countries to develop a high technology production capability in their country. In order to do so, they are finding that cooperation with more advanced countries is essential. I believe that this trend will undoubtedly continue as more and more countries seek to improve their capabilities. The simple buyer-seller relationship will evolve into a complex coproduction arrangement, especially for larger purchases.

A related outcome from the expansion of foreign capabilities is the expanded mobilization base available to the US in a contingency. Increasingly, the US must consider foreign sources in its mobilization plans.

Recommendations

Given the current international environment, what can the US do to maintain the viability of the security assistance program, and to assure that its important contributions to the attainment of US foreign policy goals continue? First, I would say that in general the existing framework of the program is adequate, but that a few changes, especially in the process, should be considered. Most importantly, the US must continue to provide sufficient levels of financial aid to sustain the development efforts of our friends and allies. A continued trend of decreasing aid will have counterproductive effects on our friend and allies, the US economy, the US mobilization base, and overall US foreign policy objectives. Because of the benefits which accrue to the US economy, and because most aid is spent in the US, the net cost to the US is neglible. When compared to the overall economic, military, security and foreign policy benefits, the security assistance program is well worth the effort.

It is also important that US policy recognize the trend toward an increasing amount of competition, especially with regard to low-medium technology equipment. Western oriented third world countries can now obtain many types of equipment from the US, Europe, and other third world countries. Of course some countries purchase US equipment because of the financial aid that we provide. What I am addressing here are those countries that are paying with cash and, therefore, are not necessarily tied to US sources, but instead are in a buyers market. Since many

countries come to the US because of their desire to develop or continue a close military-to-military relationship with the US services and/or because of the quality of US equipment, we must recognize that many of these countries are faced with economic pressure and the availability of similar equipment from foreign sources. In such cases where the US would be willing to sell and the US economy and mobilization base would benefit, we should make the purchase of US equipment as attractive as possible. Perhaps US legislation should be liberalized to recognize the benefits which accrue to the US from sales under the FMS program. While I do not recommend a subsidy for direct costs, we could consider a liberalized policy relative to the recovery of indirect costs such as research and development, asset use, and the administrative costs to manage the program. Expanding the waiver authority for such costs, or recognizing the economic benefits of certain programs in the DOD budget through the funding of the related administrative costs should be considered. Such a policy could recognize the benefits to the DOD, the US economy, and the US mobilization base which are derived from the FMS program. This change combined with a continuing emphasis on the importance of mutual cooperation with friendly and allied countries will be very important.

A third area which has generated some interest in third world countries relates to US restrictions on the retransfer of US origin technology, equipment, or production derived from US technology or with US content. I would not recommend any significant changes in this area. Current policy and criteria for the further release of US technology appear to provide the necessary flexibility and, therefore, appear to be adequate.

An area which will become even more important in the future is technology transfer. More countries will seek assistance in advancing their indigenous industrial development. The US is not the only available source for such assistance, although there are some advanced technologies available only from the US. The US must recognize that some European countries such as France or Great Britain are becoming more willing to provide technology in conjunction with the sale of their equipment. Based on the level of development of some third world countries such as Brazil and Israel, it is also possible that some countries will expand their own research and development efforts. These trends must be recognized in US policy in order to assure the viability of future cooperation with countries of the third world.

Rather than the unconstrained release of US technology or a very restrictive release policy, I would propose a fairly flexible policy recognizing the benefits derived from cooperation with third world countries, in lieu of their pursuit of production without US involvement. US technology desired by third world countries generally falls into one of four categories:

(1). Releasable technology where there are no specific factors preventing a favorable release decision.

(2). Technology which is highly classified or in other ways sensitive because of the military capabilities involved or the

clear US worldwide edge in the area.

(3). Technology which is sensitive because foreign production may adversely impact the US mobilization base.

(4). Technology which is prohibited from release by either legislation or other legal limitations such as proprietary rights held by industry.

Obviously, category 1 is the least controversial and the easiest to approve. Category 4 would normally not be releasable. In categories 2 and 3 a releasability decision will be required each time a country submits a request. In these categories, especially when there are potential mobilization base impacts, US decisionmakers will have to consider all aspects of the situation. While the most advanced and classified technologies should continue to be strictly controlled, the availability of non-US options to the requesting country should be considered before a final decision is made on the request. The premise that some US involvement is better than none, especially in the more advanced countries such as Brazil and Israel, should be a factor in the final decision. Also, consideration should be given to the possibility that the expansion of the foreign production capability will also expand the availble US worldwide mobilization base in a contingency. Overall, US policy should be based on a realistic evaluation of the military need, level of technology, country requirements and capabilities, and alternatives available if the US denies the request.

Finally, all elements within the Executive Branch and the Congress must recognize the trend toward increasing competition, which is jeopardizing the ability to use security assistance as a foreign policy tool. Accordingly, the availability of comparable systems, if any, from other foreign sources should be one of the considerations when a foreign country requests US equipment from either the US Government or US industry. This has been a factor in the past but its significance will undoubtedly increase in the future. Of course, especially in the high technology area, there will still be equipment which is only available from US sources, although increasingly, there will be competition from European sources producing similar equipment. However, in lower technology equipment, there will be foreign equipment available from third world, European, and US sources. This factor in my opinion will become increasingly important in the future, especially for those production capabilities developed without US involvement. US legislation and implementing policy must, therefore, adapt to this ever changing environment.

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MARKET SHARES IN WORLD ARMS EXPORTS, 1963-1984

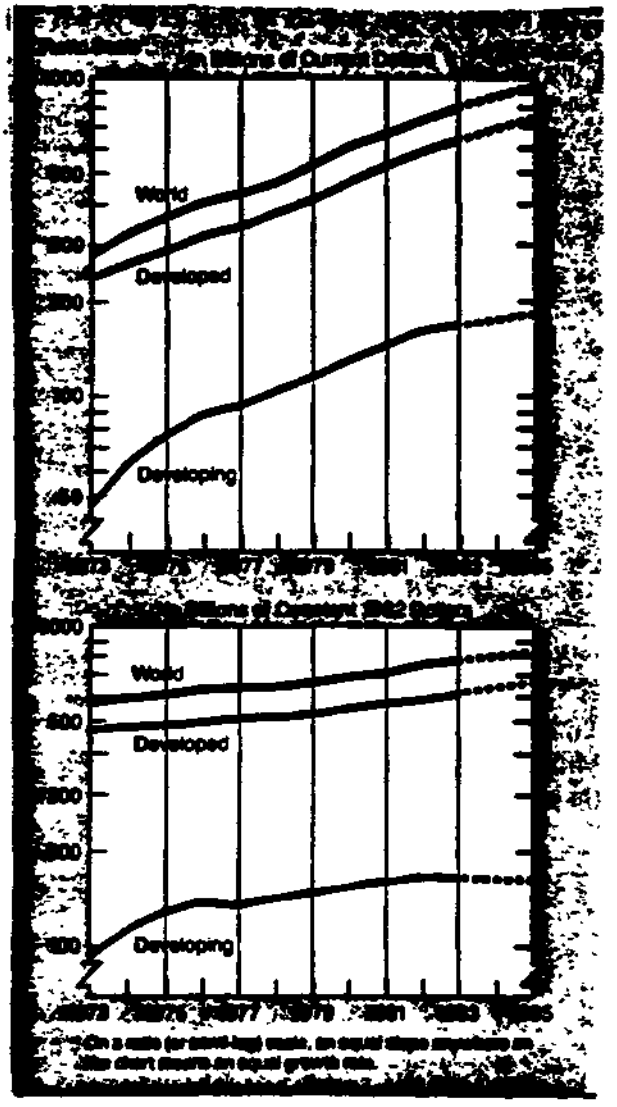
(In Percent)

Year	US	Non-US NATO	USSR	Non-USSR Pact	Others	US& USSR
1963	36.9	18.6	37.6	4.5	2.4	74.5
1964	35.3	20.3	34.5	8.3	1.7	69.7
1965	39.1	11.8	34.2	8.2	6.7	73.4
1966	40.6	12.0	35.6	6.8	4.9	76.2
1967	44.1	7.0	38.0	6.9	4.0	82.1
1968	50.3	11.5	29.8	4.8	3.6	80.1
1969	59.7	13.2	18.8	4.7	3.6	78.5
1970	53.3	12.0	25.8	4.6	4.2	79.1
1971	53.5	11.3	25.2	4.6	5.4	78.7
1972	38.4	19.1	27.9	4.4	10.2	66.3
1973	39.4	14.7	38.7	4.2	2.9	78.2
1974	41.0	15.8	33.6	5.7	3.8	74.6
1975	38.0	16.6	31.0	6.4	8.0	69.0
1976	35.3	19.8	31.7	5.4	7.7	67.1
1977	34.0	18.8	33.5	6.5	7.2	67.5
1978	27.9	23.4	33.1	8.0	7.5	61.0
1979	21.9	18.4	45.6	6.5	7.7	67.5
1980	22.0	25.4	39.3	5.3	8.0	61.3
1981	23.5	29.0	30.7	6.0	10.8	54.2
1982	24.4	22.9	29.6	7.9	15.2	54.0
1983	28.4	25.8	26.2	6.6	13.0	54.6
1984	22.0	24.3	26.9	8.0	18.8	48.9

SOURCE: World Military Expenditures and Arms transfers 1985, US Arms Control and Disarmament Agency, August 1985.

Figure 1

WORLD MILITARY EXPENDITURES 1973-1985



SOURCE: World Military Expenditures and Arms Transfers 1985, US Arms Control and Disarmament Agency, August 1985.

Figure 2

ARMS EXPORTS

(In Percent)

	World Share		Real Growth Rate*	
	1973	1983	1973-83	1980-83
World:	100.0	100.0	5.8	1.0
Developed	97.7	88.9	4.7	-1.5
Developing	2.3	11.1	23.4	31.8
Region:				
Africa	0.0	0.2	28.3a	104.8
East Asia	1.8	6.3	23.2	38.2
Europe, all	56.3	60.2	7.8	-4.6
NATO Europe	13.8	24.6	12.6	-1.3
WARSAW Pact	42.9	31.8	4.9	-7.6
Other Europe	0.7	4.3	8.8	5.8
Latin America	0.1	0.4	8.9b	1.3
Middle East	0.2	0.8	10.7	12.2
North America	40.3	30.4	0.4	9.7
Oceania	0.1	0.1	7.1	-12.5
South Asia	0.0	0.8	18.4	60.8
Organization:				
NATO, all	54.2	55.0	4.4	4.0
WARSAW Pact	42.9	31.8	4.8	-7.6
OPEC	0.0	0.3	9.2	23.1
OECD	54.9	59.1	4.8	4.2

*Average real growth calculated from data in constant 1982 dollars as a compound rate and fitted to all years .
a 1975-1983
b 1974-1983

Figure 3

FOREIGN MILITARY SALES FINANCING PROGRAM
BUDGET AUTHORITY/OBLIGATIONS
(Dollars in Thousands)

	ACTUAL FY 1985			ESTIMATED FY 1986			PROPOSED FY 1987		
	TREASURY RATE	CONCESS. RATE	TOTAL	TREASURY RATE	CONCESS. RATE	TOTAL	TREASURY RATE	CONCESS. RATE	TOTAL
PROMOTE MIDDLE EAST PEACE:									
EGYPT	0	1175000	1175000a/	0	1244100	1244100a/	0	1300000	1300000a/
ISRAEL	0	1400000	1400000a/	0	1722600	1722600a/	0	1800000	1800000a/
JORDAN	42500	47500	90000	19140	62205	81345	30000	65000	115000
TOTAL	42500	2622500	2665000	19140	3028905	3048045	30000	3165000	3215000
ENHANCE COOPERATIVE DEFENSE & SECURITY:									
GREECE	242000	258000	500000	83546	347104	430650	300000	0	300000
MOROCCO	0	8000	8000	0	957	957	0	10000	10000
OMAN	40000	0	40000	19140	0	19140	40000	0	40000
PANAMA	0	0	0	0	3828	3828	0	4000	4000
PHILIPPINES	0	15000	15000	0	14355	14355	0	30000	30000
PORTUGAL	55000	0	55000	9570	33495	43065	21500	45000	66500
SPAIN	400000	0	400000	382800	0	382800	400000	0	400000
TURKEY	233000	250000	483000	79288	330165	409453	145000	455000	600000
TOTAL	972000	531000	1503000	574344	729904	1304248	1106500	564000	1670500
DETER AND COMBAT AGGRESSION:									
EL SALVADOR	0	10000	10000	0	0	0	0	0	0
KOREA	230000	0	230000	162690	0	162690	230000	0	230000
PAKISTAN	325000	0	325000	311025	0	311025	340000	0	340000
THAILAND	95000	0	95000	42347	38184	80531	42500	61000	103500
TUNISIA	25000	25000	50000	0	25839	25839	0	27000	27000
YEMEN	0	0	0	0	0	0	0	3000	3000
TOTAL	675000	35000	710000	516062	64023	580085	612500	91000	703500
PROMOTE REGIONAL STABILITY:									
BOTSWANA	0	5000	5000	0	0	0	0	2000	2000
CAMEROON	0	5000	5000	0	0	0	7000	0	7000
COLOMBIA	0	0	0	9570	0	9570	0	10000	10000
DOMINICAN REPUBLIC	0	3000	3000	0	0	0	0	3000	3000
ECUADOR	2000	2000	4000	1914	1914	3828	0	0	0
GABON	0	0	0	0	0	0	5000	0	5000
INDONESIA	12500	20000	32500	0	19140	19140	0	35000	35000
MALAYSIA	4000	0	4000	1914	0	1914	5000	0	5000
PERU	3000	5000	8000	0	0	0	0	5000	5000
TOTAL	21500	40000	61500	13398	21054	34452	17000	55000	72000
WORLDWIDE TOTAL	1711000	3228500	4939500	1122944	3843886	4966830	1786000	3875000	5661000

a/ Repayment forgiven.

SOURCE: Congressional Presentation for Security Assistance Prorams Fiscal Year 1987

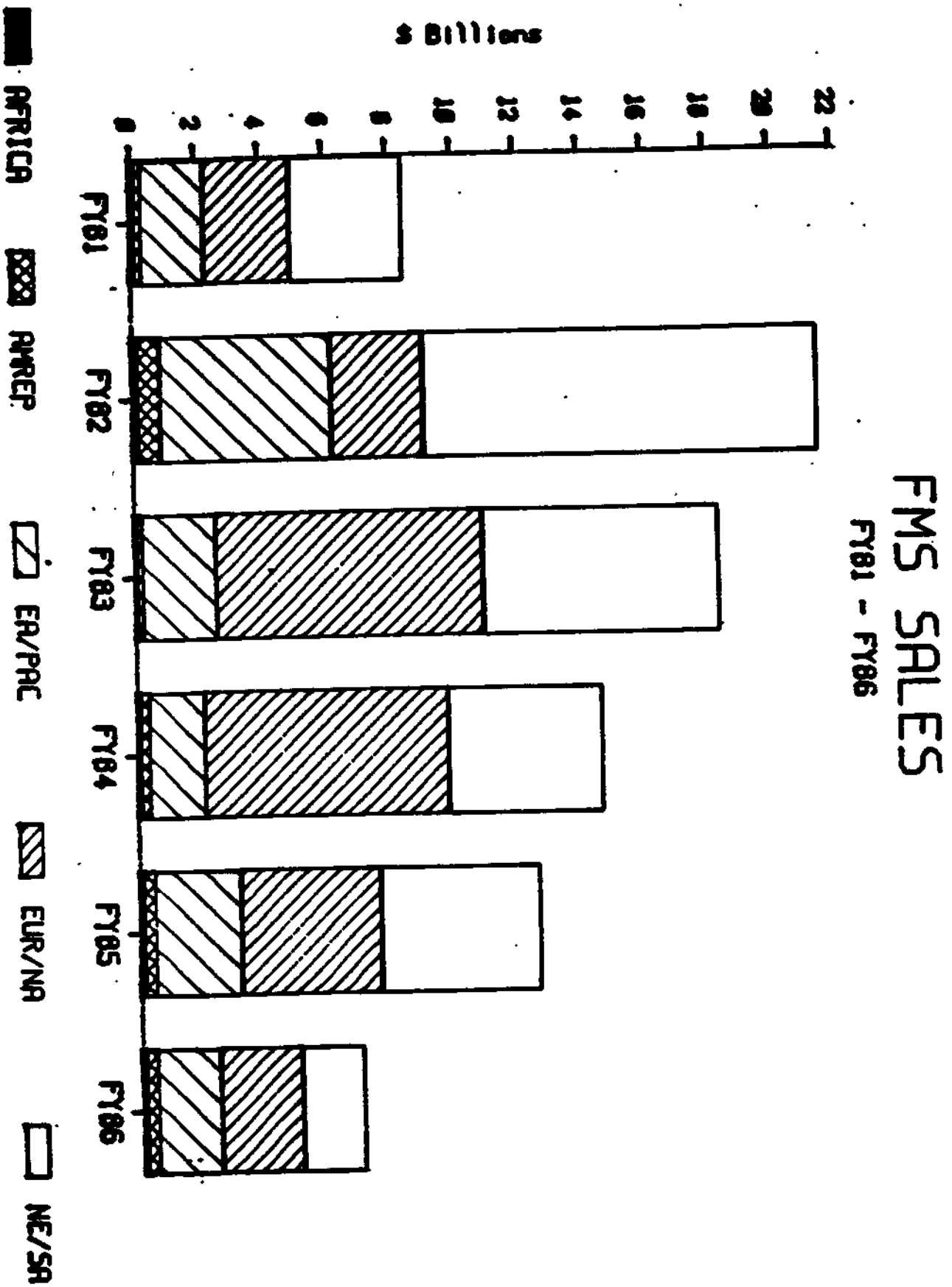
Figure 4

MILITARY ASSISTANCE PROGRAM
BUDGET AUTHORITY/OBLIGATIONS
(Dollars in Thousands)

	ACTUAL FY 1985	ESTIMATED FY 1986	PROPOSED FY 1987
ENHANCE COOPERATIVE DEFENSE & SECURITY:			
DJIBOUTI	2500	1914	4000
KENYA	20000	19140	20000
LIBERIA	12000	4785	6000
MOROCCO	40000	23493	40000
PANAMA	10000	9028	9000
PHILIPPINES	25000	38200	30000
PORTUGAL	70000	66000	75000
SOMALIA	25000	19140	25000
SUDAN	45000	19140	30000
TURKEY	215000	203735	220000
TOTAL	472500	412467	521400
DETER AND COMBAT AGGRESSION			
CHAD	5000	3742	9000
COSTA RICA	13000	2393	3100
EL SALVADOR	134750	125347	134650
HONDURAS	72800	58664	87500
THAILAND	5000	4785	5000
TUNISIA	13000	23493	40000
YEMEN	5000	1914	5000
TOTAL	250550	232360	284250
PROMOTE REGIONAL STABILITY:			
BELIZE	500	479	1000
BOLIVIA	3000	2870	6000
BOTSWANA	4000	3350	6000
BURMA	0	0	1000
CENTRAL AFRICAN REPUBLIC	0	0	1000
CIVIC ACTION - AFRICA	5000	4785	10000
COLOMBIA	0	0	10000
DOMINICAN REPUBLIC	5000	3828	7000
EASTERN CARIBBEAN	5000	7178	9000
ECUADOR	2000	0	8000
EQUATORIAL GUINEA	0	957	1000
FIJI	500	287	500
GUATEMALA	0	4785	10000
GUINEA	3000	1914	3000
HAITI	500	479	500
JAMAICA	7360	7656	8000
MADAGASCAR	2850	1435	3000
MALAWI	1000	957	2000
NIGER	5000	3828	4000
PERU	0	0	20000
SENEGAL	3000	2870	4500
URUGUAY	0	0	2500
ZAIRE	7000	6699	12000
TOTAL	53310	54337	131000
OTHER:			
FINANCIAL ADJUSTMENT	-25460	0	0
GENERAL COSTS	54000	48233	48000
NARCOTICS AIRCRAFT	0	957	1000
TOTAL	28540	49190	49000
TOTAL BUDGET AUTHORITY/ OBLIGATIONS	805100	748374	986450

SOURCE: Congressional Presentation for Security Assistance Programs Fiscal Year 1987

Figure 5

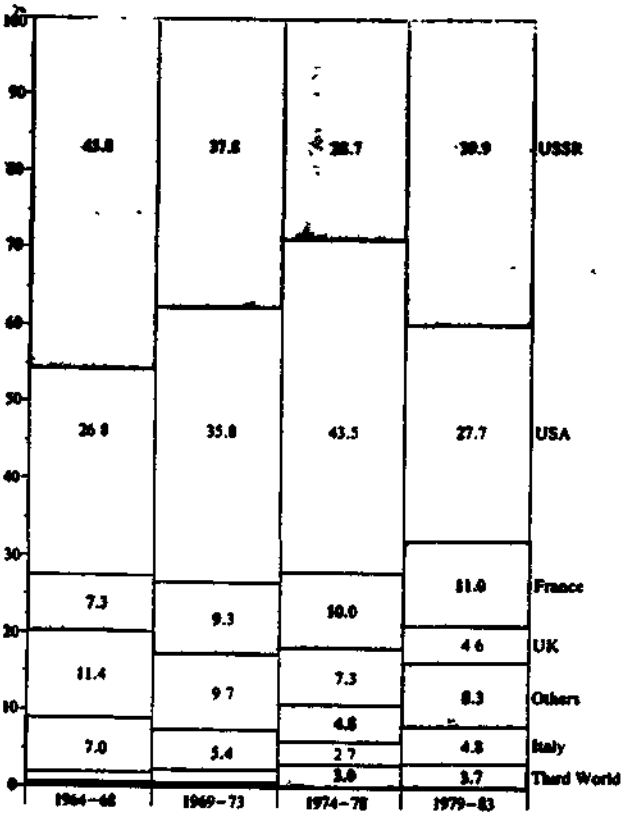


FMS SALES
FY81 - FY86

SOURCE: Defense Security Assistance Agency

Figure 6

PERCENTAGE SHARES OF EXPORTS OF MAJOR WEAPONS TO THIRD WORLD REGIONS



RANK ORDER OF THE 20 LARGEST THIRD WORLD MAJOR WEAPON IMPORTING COUNTRIES (1979–83)

Percentages are based on SIPRI trend indicator values, as expressed in US $ million, at constant (1975) prices

Importing country	Percentage of total Third World imports	Importing country	Percentage of total Third World imports
1. Syria	11.8	11. Algeria	2.2
2. Libya	9.2	12. Morocco	2.2
3. Iraq	8.9	13. Viet Nam	2.0
4. Egypt	7.7	14. Korea, South	1.8
5. Saudi Arabia	7.0	15. Peru	1.8
6. India	5.5	16. Taiwan	1.8
7. Israel	4.7	17. Indonesia	1.7
8. Cuba	2.8	18. Jordan	1.5
9. Argentina	2.8	19. Pakistan	1.3
10. Yemen, South	2.2	20. Kuwait	1.2
		Others	19.9
		Total	100.0

SOURCE: Thomas Ohlsen and Michael Brzoska, The trade in Conventional Weapons

FIGURE 7

THIRD WORLD ARMS PRODUCERS

(Top Ten Exporters 1973-1983)

COUNTRY	PRODUCTS	CUSTOMERS	VALUE	REMARKS
China	Planes, small attack boats, planes	Iran, Iraq, Egypt	$4.3B	Imports down from $80M in 1978 to $40Min 1982
South Korea	Ships, attack boats, planes, small arms	Thailand, Malaysia, Pakistan, Iraq	$2.2B	Imports down from $525M in 1978 to $290M in 1983
North Korea	Ships, attack boats, artillery tanks, small arms	Togo, Iran Pakistan, Egypt	$2.0B	
Israel	Planes, missiles tanks, artillery small arms	US & 50 other countries	$1.8B	Imports down from $900M in 1978 to $370M in 1983
Brazil	Planes, missiles tanks, artillery small arms	Libya, Iraq, Saudi Arabia, UK, Argentina, Taiwan	$.96B	Imports down from $210M in 1978 to $40M in 1983
Egypt	Missiles, ships, tanks, small arms	Iraq, China	$.575B	
Pakistan	Planes, small arms	China, Afghan rebels	$.420B	
South Africa	Planes, missiles, artillery, small arms	Chile, Iraq, Taiwan, Paraguay	$.245B	
India	Aircraft,	Iran, Libya,	$.200B	

	missiles, ships, tanks, small arms	Mozambique	
Singapore	Ships, small arms	Indonesia, Thailand, Iran, Iraq, Oman, Saudi Arabia	$.140B

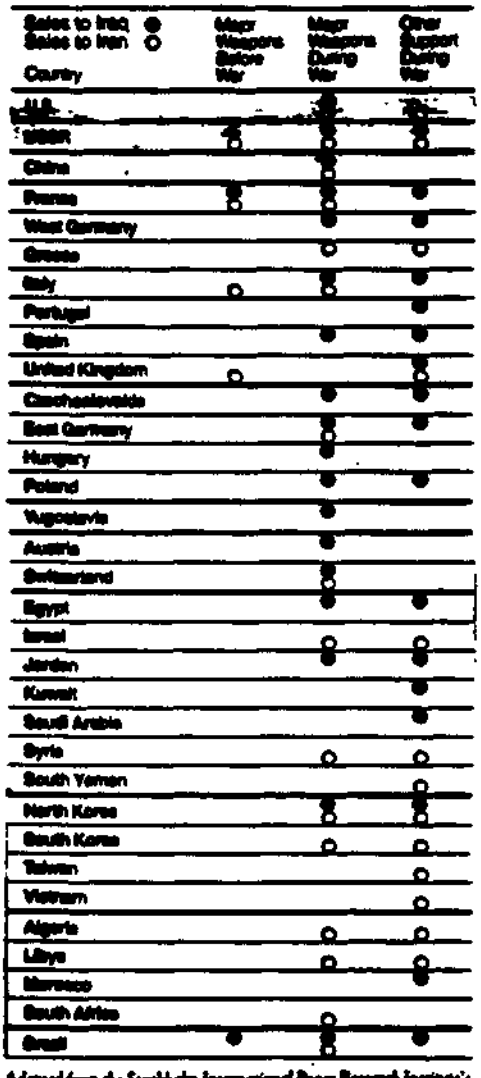
SOURCES: World Military Expenditures and Arms Transfers 1985, US Arms Control and Disarmament Agency, August 1985

US News and World Report, February 3, 1986, pages 37-39.

Figure 8

THE IRAN/IRAQ ARMS BAZAAR

THE IRAN/IRAQ ARMS BAZAAR



Adapted from the Stockholm International Peace Research Institute's 1984 yearbook, published this month. According to SIPRI, few of the nations that supply arms to Iran and Iraq show signs of wanting to see an end to the war. "It is in the interests of both superpowers that their allies deliver weapons to both sides," since a prolonged conflict "increases the conditions for Iraq and Iran's future reliance on the United States and the Soviet Union." Nine nations directly or indirectly supply both sides.

SOURCE: Harpers, June 1984

Figure 9

INDUSTRIALIZED COUNTRIES SUPPLYING LICENSES FOR ARMS PRODUCTION IN THIRD WORLD COUNTRIES

	West Germany	United States	France	Great Britain	Italy
Aircraft & Helicopter	3	16	10	5	7
Tanks	1	1	-	2	-
Warships & Submarines	13	4	2	11	6
Missiles	5	3	7	1	1
Small Arms	21	11	7	1	4
Electronics, avionics, Optics	1	8	-	2	-
Total	44	43	26	22	18

SOURCE: "THE IMPLICATIONS OF THIRD WORLD MILITARY INDUSTRIALIZATION," PAGE 62

Figure 10